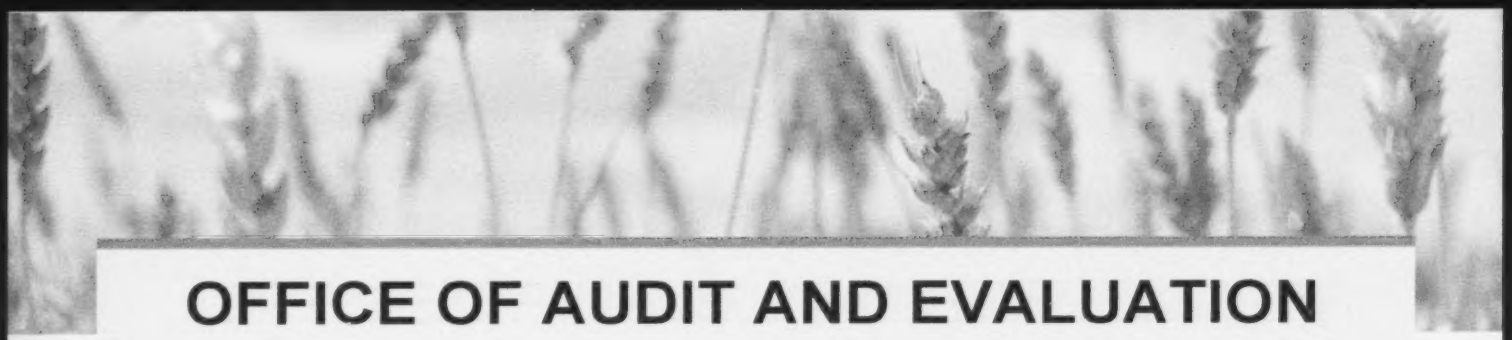

# OFFICE OF AUDIT AND EVALUATION

## Audit of AgriRisk Initiatives Program

Departmental Audit Committee
March 2, 2018

Agriculture and Agri-Food Canada | Agriculture et Agroalimentaire Canada

Canada

The AAFC Audit Committee recommended this audit report for approval by the Deputy Minister on March 21, 2018.

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Electronic version available at www.agr.gc.ca/aud_eval

Catalogue No. A29-1/16-2018E-PDF
ISBN 978-0-660-26458-5
AAFC No. 12773E

Paru également en français sous le titre
Audit du programme des Initiatives Agri-risques.

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## Abbreviations

| | |
|---|---|
| AAFC | Agriculture and Agri-Food Canada |
| ACB | Administrative Capacity Building |
| BRM | Business Risk Management |
| GF2 | Growing Forward 2 |
| RRMF | Recipient/Project Risk Management Framework |
| R&D | Research and Development |
| SPED | Service and Program Excellence Directorate |

## EXECUTIVE SUMMARY

AgriRisk is a five-year program within the suite of Business Risk Management (BRM) programs, designed to facilitate the development and adoption of new private sector or producer-funded agricultural risk management tools.

AgriRisk was created to encourage partnerships between governments, industry stakeholders, and the private sector to develop, and deliver new risk management products and services. The Program supports industry-led projects for new insurance-based plans and other risk management tools through the Research and Development (R&D) stream. Through the Administrative Capacity Building (ACB) stream, AgriRisk also provides support for cost-shared federal-provincial-territorial initiatives to implement and administer new private sector and government risk management tools. For this stream, the provincial and territorial governments are considered as partners with lower inherent risks.

The Audit of AgriRisk Initiatives Program was approved as part of the 2017-21 Integrated Audit and Evaluation Plan for fiscal year 2017-18. The objective was to provide assurance on the adequacy and effectiveness of controls in place to support the management and delivery of AgriRisk.

The audit concluded that adequate and effective controls are in place to support the administration of AgriRisk. In particular, the following good management practices were noted:

- Recipient monitoring was regularly performed; and
- Claim verification and approval processes were accurately followed.

The audit identified opportunities to improve the documentation practices in place, particularly for the ACB stream. These included:

- Reviewing and updating internal procedures; and
- Reviewing documentation requirements for the eligibility assessment of applications.

# 1.0 INTRODUCTION

## 1.1 BACKGROUND

**1.1.1** AgriRisk is a program offered under Growing Forward 2 (GF2), the five-year (2013-14 to 2017-18) federal-provincial-territorial multilateral framework agreement for Canada's agricultural and agri-food sector. As part of adjustments for Business Risk Management (BRM) coverage, AgriRisk was designed to facilitate the development and adoption of new private sector or producer-funded agricultural risk management products, tools, and services, outside of those available under other BRM programs. AgriRisk encourages partnerships among governments and the private sector to develop and deliver new risk management tools and services addressing agricultural business risks. To achieve this, AgriRisk delivers support through two streams:

- *Research and Development (R&D) stream:* up to $500,000 per year in grants and contributions assistance for research and development of potential new private sector and industry-led, risk management tools, including insurance products.

- *Administrative Capacity Building (ACB) stream*: up to $5-million per year in grants and contributions assistance and up to $750,000 for one-time seed funding for cost-shared federal-provincial-territorial initiatives to implement and administer new private risk management tools.

The total budget allocated for AgriRisk was $60-million from 2013-14 to 2017-18. The R&D stream was federally funded with industry matching contributions, while the ACB stream wask cost-shared 60:40 with provincial and territorial governments.

**1.1.2** AgriRisk is managed within the Programs Branch, Business Risk Management Programs Directorate. As of 2017-18, AgriRisk had eight full time equivalent program staff.

**1.1.3** As per the 2017-21 Integrated Audit and Evaluation Plan, an audit as well as an evaluation of the Program were scheduled to be performed in 2017-18 by the Office of Audit and Evaluation (OAE) due to the following:

- AgriRisk differs from the other BRM programs in that its processes resemble typical contribution programming managed in accordance with the Treasury Board *Policy on Transfer Payments*.
- Recent internal audits for non-BRM programs have highlighted opportunities for improvement in key areas of their management control framework.
- A concurrent engagement with evaluation provides program management with an opportunity to receive an overall assessment of the Program.

To reduce burden on senior management, the OAE coordinated the audit and the evaluation engagements with regard to the timing and scope of work and shared findings.

## 1.2 AUDIT OBJECTIVE

**1.2.1** The objective of the audit was to provide assurance on the adequacy and effectiveness of controls in place to support the management and delivery of AgriRisk.

## 1.3 AUDIT SCOPE

**1.3.1** The audit examined the management control framework of AgriRisk related to application assessment, recipient monitoring, claims processing and service standards.

**1.3.2** The audit focused on medium to high risks that were in place at the time of the audit in the areas being reviewed (see Annex A for the audit criteria).

**1.3.3** The audit covered the period of April 1, 2013 to March 31, 2017.

## 1.4 AUDIT APPROACH

**1.4.1** The audit approach and methodology were risk-based and consistent with the International Standards for the Professional Practice of Internal Auditing and the Treasury Board *Policy on Internal Audit* and *Directive on Internal Audit*. These standards require that the audit be planned and performed so as to conclude against the objective. The audit was conducted in accordance with an audit program that defined audit criteria and audit tasks to be performed in the assessment of each line of enquiry.

**1.4.2** The audit reviewed a sample of R&D and ACB stream projects to assess whether policies and procedures were followed by the Program. The sample covered the period from 2013-14 to 2016-17 and included:

- Eight R&D approved projects selected from a population of 39; and
- Two ACB approved projects selected from a population of four.

**1.4.3** The sampling methodology focused on projects that had already been completed as well as projects from more recent fiscal years. This allowed for a review of the entire project lifecycle and an assessment of current management practices.

**1.4.4** The audit conduct was performed from October to December 2017. Evidence was gathered through various methods including interviews, sampling of records, and the review and analysis of documentation.

## 1.5 CONCLUSION

**1.5.1** The audit concluded that adequate and effective controls are in place to support the administration of AgriRisk. In particular, the following good management practices were noted:

- Recipient monitoring was regularly performed; and
- Claim verification and approval processes were accurately followed.

**1.5.2** The audit identified opportunities to improve the management control framework currently in place. These included:

- Reviewing and updating internal procedures, particularly for the ACB stream; and
- Reviewing documentation requirements for the eligibility assessment of applications, particularly for ACB stream projects.

## 1.6 STATEMENT OF CONFORMANCE

**1.6.1** In the professional judgment of the Chief Audit Executive, sufficient and appropriate audit procedures have been conducted and evidence gathered to support the accuracy of the conclusion provided and contained in this report. The conclusion is based on a comparison of the conditions, as they existed at the time of the audit, against pre-established audit criteria that were agreed on with management. The conclusion is applicable only to the entity examined.

**1.6.2** This audit was conducted in accordance with the Internal Auditing Standards for the Government of Canada, as supported by the results of the Quality Assurance and Improvement Program.

## 2.0 OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

This section presents the key observations, based on the evidence and analysis associated with the audit, and provides recommendations for improvement. Management action plans were provided, and include:

- An action plan to address each recommendation;
- A lead responsible for implementation of the action plan; and
- A target date for completion of the implementation of the action plan.

The results of the audit are organized into two lines of enquiry:

- Assessment of applications; and
- Administration of agreements.

## 2.1 ASSESSMENT OF APPLICATIONS

### 2.1.1 Application Policies and Procedures

2.1.1.1 Ideally, well defined policies and procedures should ensure a program is applied fairly and consistently within approved Terms and Conditions, and in line with relevant policy requirements. These policies and procedures should cover all aspects of the recipient/project lifecycle including: determination of eligibility and appropriateness of funding, funding agreement development, agreement monitoring, and reporting.

2.1.1.2 The audit noted that the communication of processes, roles, and responsibilities to new staff involved a combination of providing them with guides and templates, and on-the-job training. In 2017-18, there has been an increased focus on improving processes and documentation, including holding regular group meetings with program staff to help ensure consistency.

2.1.1.3 The audit noted that AgriRisk has separate documentation and processes for the projects in the two program streams. ACB stream funding goes to provincial governments, which are considered partners with lower inherent risks and less oversight requirements than projects in the R&D stream.

2.1.1.4 The audit reviewed AgriRisk process guides, AgriRisk Terms and Conditions, as well as relevant Service and Program Excellence Directorate (SPED) guidelines, and determined the following:

- R&D stream: Project procedures and guidelines were documented and aligned with AgriRisk Terms and Conditions, and SPED guidelines. As well, the roles and responsibilities of program staff were clearly defined. The audit observed that certain documented procedures and guidelines did not reflect current requirements, such as requirement for two years of financial statements from recipients, as well as the approval level required by funding amounts.

- ACB stream: The audit noted that a guide had been developed for ACB stream program applicants. Interviews with program staff indicated that the applicants (i.e. provinces) were not obligated to follow this guide, as it had not been finalized and communicated. There were no documented procedures and guidelines for AgriRisk staff/program officers

regarding assessment and approval processes. Based on interviews with AgriRisk staff, ACB processes were not as well defined and communicated as the R&D stream. For instance, it was unclear whether the subject matter expert review was required for ACB projects, which was also noted as a finding during file sampling.

2.1.1.5 It would be beneficial to ensure there are up-to-date procedures and guidelines for staff to support consistent program management. Without complete and up-to-date procedures and guidelines for both project streams, there is a potential risk of inconsistent practices which may lead to errors in the management of recipients and projects.

**Recommendation 1**

The Assistant Deputy Minister, Programs Branch, should ensure that internal procedures for AgriRisk, particularly for ACB stream projects, are current and applied consistently.

**Management Response and Action Plan**:
Agreed. AgriRisk is in the process of reviewing and updating the existing guides and documents to ensure all the requirements are up-to-date. AgriRisk will finalize the detailed guides and documents for the Administrative Capacity Building stream, where relevant. AgriRisk will also ensure that internal procedures are applied consistently, in particular for ACB stream projects.

AgriRisk will review guides and documents on a regular basis, and will update these as required during the Canadian Agricultural Partnership framework.

**Lead Responsible**:
Director General, Business Risk Management Programs Directorate

**Target Date for Completion**:
April 2018

### 2.1.2 Application Assessment Controls

2.1.2.1 The review of AgriRisk applications provides the foundation for recommendations to either fund or reject projects, which impacts on the achievement of program objectives. It is expected that all due diligence activities undertaken by the Program to assess applications are documented. Complete information regarding the level of due diligence performed by program officers should be available to program management, as well as the conclusions drawn from the assessment of eligibility and the risks and benefits of proposed projects.

2.1.2.2 Based on a sample of eight R&D projects, the audit observed that the Program had in place a defined application assessment process. The audit noted that the level of documented due diligence to support the application assessment criteria was not consistent. For example, for certain projects, the application assessment forms included comments by the program officer to support the project's eligibility assessment, while others did not. Also, certain application processes were not consistently followed in the sampled projects. The audit noted that:

- Four of eight (50%) R&D projects reviewed did not have final signed-off application assessment documents on file; and
- Three of eight (38%) R&D projects reviewed did not have evidence on file to demonstrate that AgriRisk addressed items raised by external reviewers.

2.1.2.3 Based on a sample of two ACB projects, the audit observed that processes were not as well defined compared to the R&D stream and there was a lack of documentation for the application processes. ACB stream funding goes to provincial governments, which are considered partners with lower inherent risks and less oversight requirements than projects in the R&D stream. The audit noted:

- Neither of the two ACB projects had final signed-off application assessments on file. The audit noted that neither of the two project files included observations or comments made by the Business Risk Management Working Group; and
- Out of the two ACB projects reviewed, external reviews were not on file for one project, while for the other project, three external reviews were obtained and on file. For the project that had external reviews on file, there was no evidence that issues raised by external reviewers were addressed by AgriRisk, or that external reviews were reviewed and signed off by the program director, as required by program procedures.

2.1.2.4 Inconsistent application of policies and procedures, and inconsistent use of standard tools, could result in a lack of assurance that a project or applicant is being assessed objectively, and that there is a basis for supporting funding decisions.

**Recommendation 2**

The Assistant Deputy Minister, Programs Branch, should review documentation requirements for the eligibility assessment of applications, particularly for ACB stream projects, to strengthen the decision-making process.

**Management Response and Action Plan**:
Agreed. AgriRisk is in the process of reviewing and updating existing tools and processes for the eligibility assessment of applications to ensure consistent documentation to support the assessment and decision-making process, particularly for ACB stream projects.

AgriRisk will review the tools and processes for the eligibility assessment of applications on a regular basis, and will update these as required during the Canadian Agricultural Partnership framework.

**Lead Responsible**:
Director General, Business Risk Management Programs Directorate

**Target Date for Completion**:
April 2018

## 2.2 ADMINISTRATION OF AGREEMENTS

### 2.2.1 Recipient/Project Risk and Monitoring

2.2.1.1 AgriRisk program officers complete recipient/project risk assessments to determine the level of monitoring needed for each project as well as requirements regarding advances, holdbacks, and claims. Regular monitoring activities increase the likelihood of success by verifying that the project is and remains aligned with performance targets, as well as identifying and addressing any issues or problems encountered.

*Recipient/Project Risk Assessment*

2.2.1.2 The audit reviewed the Recipient/Project Risk Management Framework (RRMF) assessments for the eight R&D projects sampled. The audit determined that:

- For all eight (100%) R&D projects reviewed, RRMFs were completed annually;
- For all eight (100%) risk assessments reviewed, no analysis/data were documented or referenced in the completed RRMFs to support the risk ratings assigned;
- For three of the eight (38%) projects reviewed, signed letters from the program director to recipients, on results of risk assessments including risk mitigating strategies, were not on file; and
- For three of the eight (38%) projects reviewed, RRMFs were signed/approved by the Director after the Contribution Agreements were signed by the Assistant Deputy Minister.

2.2.1.3 For the ACB stream, RRMF assessments were not required as the recipients are the provinces.

2.2.1.4 Similar observations were made in the 2016-17 Audit of AgriMarketing Program–Assurance Systems Stream and the 2016-17 Audit of the AgriInnovation Program–Enabling Commercialization and Adoption Stream regarding the need to provide greater supporting documentation to support recipient/project risk assessments. These were addressed through a business process review of existing tools and processes that was completed in June 2017 by Programs Branch, which formed the basis for the recommendations and actions to strengthen agreement monitoring and reporting under the Canadian Agricultural Partnership.

*Recipient Reporting*

2.2.1.5 The audit reviewed adherence to the reporting and monitoring requirements for the sample of eight R&D projects and the two ACB projects. The audit determined through interviews and document reviews that recipient reporting requirements were monitored by program officers as part of the quarterly claims payment process. This included verification of reporting compliance, i.e. work plan progress reports and financial reports submitted by recipients via the ARI-Business Cost-Sharing System. The audit confirmed these practices were followed for the 10 projects reviewed.

2.2.1.6 The audit noted that there was evidence of the program officer's review of progress reports in seven of the eight (88%) R&D projects. For the two ACB projects, there was no evidence of review of progress reports. Interviews with AgriRisk program staff confirmed that progress reports were not always reviewed by program officers.

2.2.1.7 The audit noted other monitoring activities. For instance, program officers provided a running commentary on each project within a "Timeline" document which was stored on the shared network drive. Through interviews, it was determined that project items were discussed during weekly program staff meetings. Any key financial and performance issues were typically informally communicated by the program officers to the program director, as AgriRisk is a relatively small program in terms of number of staff. As well, the program communicated regularly with recipients via phone calls and emails.

*Final Reporting*

2.2.1.8 The audit examined final reporting for any sampled projects that were completed. At the time of the audit, three of the eight R&D projects reviewed were completed, and none of the ACB projects had been completed. For the three completed R&D projects the final performance reports were on file, while the final financial audit of the recipient's financial statements were not submitted.

### **2.2.2** Claims

2.2.2.1 After ministerial approval of a project, the recipient and the Department enter into a Contribution Agreement detailing the Terms and Conditions for the use of the funding and the obligations of both parties. To be reimbursed, the recipient submits claims for project-related expenditures to the Department. Claims are processed by staff from both AgriRisk and the Farm Income Programs Directorate.

2.2.2.2 Prior to 2016-17, all claims were processed by one financial/program officer, but starting in 2016-17 the responsibility shifted to the program officer who was managing and more familiar with the project. The audit reviewed program documents and noted the following:

- For the R&D stream, the program developed a detailed guide related to R&D claims in fiscal year 2016-17, which was generally aligned with SPED guidelines and defined the roles and responsibilities of program staff. The audit noted that processes were not included on requesting evidence of project deliverables to demonstrate progress.
- For the ACB stream, there was no guide defining roles and responsibilities for AgriRisk staff/program officers. Interviews with program staff indicated that the claims process for ACB projects was similar to R&D projects, with some procedural differences, such as the applicants (i.e. provinces) were not obligated to conduct sampling on claims, and holdbacks were not typically applied, in alignment with the lower inherent risk of ACB recipients.

2.2.2.3 The audit reviewed claims for the sample of 10 projects (eight R&D and two ACB). Based on interviews and claims sampling, the audit determined that claims procedures were consistently followed and in alignment with R&D stream documentation. In particular, the following was noted:

- Claims for reimbursement from recipients were reviewed by program staff to ensure that expenditures are eligible under the Contribution Agreement and program Terms and Conditions, and that the expenditures claimed have been incurred;
- Program Payment Checklists were used to assess claims;
- Required monitoring strategies (e.g. sampling) for claims as per the most recent Recipient/Project Risk Assessment were conducted;

- Requests for advance payments met both Contribution Agreement and program Terms and Conditions, and were consistent with Treasury Board Secretariat requirements;
- Costs incurred prior to the execution of the Contribution Agreements were only accepted as provided for in Contribution Agreements and program Terms and Conditions;
- Total payment made for claims did not exceed approved funding for the Contribution Agreement;
- Section 34 account verification was conducted in accordance with established processes and procedures; and
- Section 34 was signed by an individual with valid signing authority.

### 2.2.3 Service Standards

2.2.3.1 In accordance with the Treasury Board *Policy on Transfer Payments*, reasonable and practical service standards for transfer payment programs should be established. As per the Treasury Board Secretariat's Guideline on Service Standards, service standards are integral to good client service and effective performance management. These provide staff with performance targets and inform clients on what to expect.

2.2.3.2 The analysis of performance in relation to key service standards determined that the AgriRisk program would benefit from a review to streamline the application assessments and the claims processing. These observations and the associated recommendation are documented in the 2018 Evaluation of AgriRisk Initiatives.

# ANNEX A: AUDIT CRITERIA

## 1. Line of Enquiry 1: Assessment of Applications

- Application assessment is conducted in an efficient and effective manner in line with funding Terms and Conditions and established policies and procedures.
- Adequate controls are in place to ensure that the due diligence conducted is available to Program Management to support funding decisions.

## 2. Line of Enquiry 2: Administration of Agreements

- Appropriate risk-based monitoring strategies have been established for program recipients to ensure compliance with funding Terms and Conditions.
- Claims are processed in an efficient and effective manner in accordance with recipient risk assessment and funding Terms and Conditions.
- Service standards are effectively tracked, reported and used by management to support decision making.